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**CONSOLIDATED VERSION OF THE FOLLOWING  
GOVERNMENT NOTICES:**

**No 522 issued in Government Gazette No. 30013 on 29 June 2007**

**AND**

**No. 521 issued in Government Gazette No. 31656 on 28 November 2008**

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**NATIONAL TREASURY**

**LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003**

**EXEMPTIONS**

I, Trevor A Manuel, Minister of Finance, acting in terms of section 177 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), hereby exempt municipalities and municipal entities from, or in respect of, section 122(2) and (3) of the Act, to the extent set out in the Schedule hereto.

**T.A. MANUEL, MP**

**MINISTER OF FINANCE**

## SCHEDULE

### Definitions

1. In this Schedule a word or expression to which a meaning has been assigned in section 1 of the Act has the same meaning as in the Act, and –

**“high capacity municipality”, “medium capacity municipality” and “low capacity municipality”**, respectively, has the meaning assigned to it in Government Notice No. 773 of 1 July 2004, issued in Government Gazette No. 26511, and, for purposes of this Schedule, does not include its municipal entities;

**“relevant treasury”**, in relation to a provision of this Notice, means the National Treasury, or if the National Treasury’s function in terms of such provision has been delegated to a provincial treasury, that provincial treasury;

**“the Act”** means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

### High capacity municipalities

2. (1) High capacity municipalities are hereby exempted from complying with section 122(2) of the Act to prepare consolidated financial statements for the 2006/07 and 2007/08 financial years.

(2) High capacity municipalities are hereby exempted from complying with section 122(3) of the Act to the extent that they are required in the preparation of their financial statements to comply with the standards and parts or aspects of standards specified in the second column of Annexure A hereto. This exemption applies in respect of the 2006/07 and 2007/08 financial years unless specified otherwise in the third column of Annexure A.

(3) The exemptions referred to in subclauses (1) and (2) are subject to the following conditions:

- (a) No high capacity municipality may deviate from an exemption in terms of this Notice unless the municipality has consulted the relevant treasury before 31 July of the year concerned and has agreed with that treasury on the basis of presentation of the annual financial statements, or any consolidated financial statements if such consolidated statements are to be presented.<sup>1</sup>
- (b) Any agreement referred to in paragraph (a) must be in writing and submitted to the National Treasury before 15 August of the relevant year.
- (c) The annual financial statements of a high capacity municipality must have an annexure attached in which the annual financial statements of each of its entities are contained, except when the municipality presents consolidated financial statements under an agreement in terms of paragraph (a).
- (d) High capacity municipalities must before 30 October 2007 and before 31 March 2008 submit to the National Treasury and the relevant provincial treasury an implementation plan, in a format determined by the National Treasury, reflecting progress towards full compliance with sections 122(2) and (3) of the Act.
- (e) The notes to the annual financial statements of high capacity municipalities must disclose –
  - (i) the specific exemptions set out in the Annexure hereto applicable to those statements;
  - (ii) the progress made towards achieving full compliance with the standards referred to in section 122(3) as measured against the implementation plan referred to in paragraph (d);
  - (iii) an explanation of the extent to which the information in the annual financial statements would need to be adjusted for full compliance with those standards; and
  - (iv) any other relevant information concerning the exemptions that may enhance the usefulness of the annual financial statements.
- (f) High capacity municipalities must apply the deviation with the standards and parts or aspects of standards specified in the second column of Annexure B.

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<sup>1</sup> As high capacity municipalities are exempted in terms of clause 2(1) to prepare and submit consolidated financial statements for the 2006/07 and 2007/08 financial years, the Auditor General will only audit those consolidated statements that are presented under an agreement in terms of this clause. The same arrangement applies for medium and low capacity municipalities except that in the case of low capacity municipalities the exemption is granted for the 2008/09 financial year as well. See similar clauses below.

### **Medium capacity municipalities**

3. (1) Medium capacity municipalities are hereby exempted from complying with –

- (a) section 122(2) of the Act to prepare consolidated financial statements; and
- (b) section 122(3) of the Act to the extent that they are required in the preparation of their financial statements to comply with the standards referred to in that section.

(2) The exemptions referred to in subclause (1)(a) and (b) apply in respect of the 2006/07 and 2007/08 financial years only and are subject to the following conditions:

- (a) Medium capacity municipalities must prepare and submit their annual financial statements for the 2006/07 and 2007/08 financial years using the same basis of accounting applied in the 2005/06 financial year.
- (b) No medium capacity municipality may deviate from paragraph (a) or from an exemption in terms of subclause (1)(a) or (b) unless the municipality has consulted the relevant treasury before 31 July of the year concerned and has agreed with that treasury on the basis of presentation of the annual financial statements, or any consolidated financial statements if such consolidated statements are to be presented.
- (c) Any agreement referred to in paragraph (b) must be in writing and submitted to the National Treasury before 15 August of the relevant year.
- (d) The annual financial statements of a medium capacity municipality must have an annexure attached in which the annual financial statements of each of its entities are contained, except when the municipality presents consolidated financial statements under an agreement in terms of paragraph (b).
- (e) Medium capacity municipalities must before 30 October 2007, and thereafter annually submit to the National Treasury and the relevant provincial treasury an implementation plan, in a format determined by the National Treasury, reflecting progress towards full compliance with sections 122(2) and (3) of the Act.
- (f) Medium capacity municipalities that in terms of a deviation as envisaged in paragraph (b) above are applying GAMAP 9, must apply the deviation with the standards and parts or aspects of standards specified in the second column of Annexure B.

- (g) Medium capacity municipalities that in terms of a deviation as envisaged in paragraph (b) above are applying GAMAP 17 to a transfer or adjustment of functions, must apply the deviation with the standards and parts or aspects of standards specified in the second column of Annexure B.

#### **Low capacity municipalities**

4. (1) Low capacity municipalities are hereby exempted from complying with –

- (a) section 122(2) of the Act to prepare consolidated financial statements; and
- (b) section 122(3) of the Act to the extent that they are required in the preparation of their financial statements to comply with the standards referred to in that section.

(2) The exemptions referred to in subclause (1)(a) and (b) apply in respect of the 2006/07, 2007/08 and 2008/09 financial years only and are subject to the following conditions:

- (a) Low capacity municipalities must, in respect of the 2006/07, 2007/08 and 2008/09 financial years, prepare and submit their annual financial statements using the same basis of accounting applied in the 2005/06 financial year.
- (b) No low capacity municipalities may deviate from paragraph (a) or from an exemption in terms of subclause (1)(a) or (b) unless the municipality has consulted the relevant treasury before 31 July of the year concerned and has agreed with that treasury on the basis of presentation of the annual financial statements, or any consolidated financial statements if such consolidated statements are to be presented.
- (c) Any agreement referred to in paragraph (b) must be in writing and submitted to the National Treasury before 15 August of the relevant year.
- (d) The annual financial statements of a low capacity municipality must have an annexure attached in which the annual financial statements of each of its entities are contained, except when the municipality presents consolidated financial statements under an agreement in terms of paragraph (b).
- (e) Low capacity municipalities must before 30 October 2007, and thereafter annually, submit to the National Treasury and the relevant provincial treasury an

implementation plan, in a format determined by the National Treasury, reflecting progress towards full compliance with sections 122(2) and (3) of the Act.

- (f) Low capacity municipalities that in terms of a deviation as envisaged in paragraph (b) above are applying GAMAP 9, must apply the deviation with the standards and parts or aspects of standards specified in the second column of Annexure B.
- (g) Low capacity municipalities that in terms of a deviation as envisaged in paragraph (b) above are applying GAMAP 17 to a transfer or adjustment of functions, must apply the deviation with the standards and parts or aspects of standards specified in the second column of Annexure B.

### **Municipal entities**

5. (1) Municipal entities are hereby exempted from complying with section 122(3) of the Act to the extent that they are required in the preparation of their financial statements to comply with the standards referred to in that section.

(2) The exemptions referred to in subclause (1) apply in respect of the 2006/07, 2007/08 and 2008/09 financial years only and are subject to the following conditions:

- (a) Municipal entities must, in respect of the 2006/07, 2007/08 and 2008/09 financial years, prepare and submit their annual financial statements using the same basis of accounting applied in the 2005/06 financial year.
- (b) Municipal entities must comply with any new standards prescribed in terms of section 91(b) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) and which apply to municipal entities.
- (c) No municipal entity may deviate from paragraph (a) or (b) or from an exemption in terms of subclause (1) unless the entity has consulted its parent municipality and the relevant treasury before 31 July of the year concerned and has agreed with the parent municipality and that treasury on the basis of presentation of its annual financial statements.
- (d) Any agreement referred to in paragraph (c) must be in writing and submitted to the National Treasury before 15 August of the relevant year.

- (e) Municipal entities that in terms of a deviation as envisaged in paragraph (c) above are applying GAMAP 9, must apply the deviation with the standards and parts or aspects of standards specified in the second column of Annexure B.
- (f) Municipal entities that in terms of a deviation as envisaged in paragraph (b) above are applying GAMAP 17 to a transfer or adjustment of functions, must apply the deviation with the standards and parts or aspects of standards specified in the second column of Annexure B.

**Effective date**

- 6. This Notice takes effect on 30 June 2007<sup>2</sup>.

**ANNEXURE**

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<sup>2</sup> Effective date - The amendments (underlined text) is effective from the 2007/08 financial year and lapses when Government Notice No. 522 issued in Government Gazette No. 30013 lapses.

### EXEMPTIONS FOR HIGH CAPACITY MUNICIPALITIES IN TERMS OF CLAUSE 2(2) OF THIS NOTICE

High capacity municipalities must comply with GRAP and GAMAP standards prescribed in General Notice 991 and 992 of 2005, except for the standards or parts of standards as set out below.

Financial reporting standard		Extent of exemption from standard	Exemption period
GRAP 3	Accounting policies, changes in accounting estimates and errors	Identification and impact of GRAP standards that have been issued but are not yet effective and changes to accounting policies <i>[paragraphs 14, 19 and 30 - 31]</i>	For the 2006/07 and 2007/08 financial years
GAMAP 17	Property, plant and equipment (PPE)	Review of useful life of items of PPE recognized in the annual financial statements <i>[paragraphs 59 - 61, and 77]</i>	For the 2006/07 and 2007/08 financial years
		Review of depreciation method applied to PPE recognized in the annual financial statements <i>[paragraphs 62 and 77]</i>	For the 2006/07 and 2007/08 financial years
		Impairment of non-cash-generating assets <i>[paragraphs 64 - 69 and 75(e)(v) – (vi)]</i>	For the 2006/07 and 2007/08 financial years
		Impairment of cash-generating assets <i>[paragraphs 63 and 75(e)(v) – (vi)]</i>	For the 2006/07 and 2007/08 financial years
IAS 36 (AC 128)	Impairment of assets	Entire standard	For the 2006/07 and 2007/08 financial years
GAMAP 12	Inventories	The entire standard as far as it relates to immovable capital assets inventory that is accounted for in terms of GAMAP 17	For the 2006/07 and 2007/08 financial years
		The entire standard to the extent that it relates to water stock that was not purchased by the municipality	For the 2006/07 and 2007/08 financial years
IAS 40 (AC 135)	Investment property	The entire standard to the extent that the property is accounted for in terms of GAMAP 17	For the 2006/07 and 2007/08 financial years
		Disclosure of the fair value of investment property if the cost model is applied and where the municipality has recognised the investment property in terms of this standard <i>[paragraphs</i>	For the 2006/07 and 2007/08 financial years



Financial reporting standard		Extent of exemption from standard	Exemption period
		<i>79(e)(i) – (iii)]</i>	
IAS 17 (AC 105)	Leases	Recognising operating lease payments / receipts on a straight –line basis if the amounts are recognised on the basis of the cash flows in the lease agreement. <i>(SAICA circular 12/06 paragraphs 8 – 11 and paragraphs 33, 34, 50, 51 of IAS 17 / AC 105)</i>	For the 2006/07 and 2007/08 financial years
IAS 38 (AC 129)	Intangible assets	The entire standard except for the recognition, measurement and disclosure of computer software and website costs (SIC 32/AC 432) and all other costs are expensed.	For the 2006/07 and 2007/08 financial years
IAS 19 (AC 116)	Employee benefits	Defined benefit accounting as far as it relates to defined benefit plans accounted for as defined contribution plans and the defined benefit obligation disclosed by narrative information. <i>[paragraphs 29, 48 -119, 120A(c) – (q)]</i>	For the 2006/07 and 2007/08 financial years
GAMAP 9	Revenue	Initial measurement of fair value discounting all future receipts using an imputed rate of interest. <i>(SAICA circular 09/06 and paragraph 12)</i>	For the 2006/07 and 2007/08 financial years
IAS 39 (AC 133)	Financial instruments: Recognition and measurement	Initially measuring financial assets and financial liabilities at fair value. <i>(SAICA circular 09/06, paragraph 43, AG 79, AG64 and AG65 of IAS 39 / AC 133)</i>	For the 2006/07 and 2007/08 financial years
IFRS 5 (AC 142)	Non-current assets held for sale and discontinued operations	Classification, measurement and disclosure of non-current assets held for sale <i>[paragraphs 6 – 14, 15 – 29 (in so far as it relates to non-current assets held for sale), 38 – 42]</i>	For the 2006/07 and 2007/08 financial years
IFRS 7 (AC144)	Financial instruments: Disclosures	Entire Standard to be replaced by IAS 32 (AC125) issued August 2006 and effective for financial statements covering periods beginning on or after 1 January 1998	For the 2006/07 and 2007/08 financial years
IAS 14 (AC 115)	Segment reporting	Entire Standard	For the 2006/07 and 2007/08 financial years

Financial reporting standard		Extent of exemption from standard	Exemption period
IFRS 8 (AC 145)	Operating segments	Entire Standard	For the 2006/07 and 2007/08 financial years
IAS 11 (AC 109)	Construction contracts	Entire standard	For the 2006/07 and 2007/08 financial years
IFRS 3 (AC 140)	Business combinations	Entire standard	For the 2006/07 and 2007/08 financial years
IAS 20 (AC 134)	Accounting for government grants and disclosure of government assistance	Entire standard excluding paragraph 24 and 26, replaced by paragraph 08 of GAMAP 12, paragraph 25 of GAMAP 17 and paragraphs 42 - 46 of GAMAP 9	For the 2006/07 and 2007/08 financial years

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**EXEMPTION CONDITIONS FOR HIGH CAPACITY MUNICIPALITIES IN TERMS OF PARAGRAPH 2(3)(f) OF THIS NOTICE**

High capacity municipalities in terms of this exemption must apply the following conditions:

Financial reporting standard		Extent of exemption from standard	Exemption period
GAMAP 9	Revenue	It is not permitted to limit the initial recognition of revenue as described in paragraphs 15(b), 24(d), 29(a), 37(a), 43(a), 47(a), 50(a) and 55(a). Municipalities must recognise revenue on a gross basis.	For the 2007/08 financial year
GAMAP 17	Property, Plant and Equipment	In respect of assets received as a result of a transfer or adjustment of functions - Municipalities must apply GAMAP 17 in respect of assets that it has recognised. GAMAP 17 does not apply to assets that must still be recognised	For the 2007/08 financial year